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RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE  
INFO RUEHRG/AMCONSUL RECIFE 4517  
RUEHSO/AMCONSUL SAO PAULO 6631  
RUEHRI/AMCONSUL RIO DE JANEIRO 1763  
RUEHBU/AMEMBASSY BUENOS AIRES 3889  
RUEHSG/AMEMBASSY SANTIAGO 5400  
RUEHAC/AMEMBASSY ASUNCION 5309  
RUEHMN/AMEMBASSY MONTEVIDEO 6135  
RUEHME/AMEMBASSY MEXICO 1944  
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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PREL](#) [BR](#)

SUBJECT: BRAZILIAN FINANCE MINISTER'S FATE TO BE DECIDED THIS WEEK

REF: A) BRASILIA 546  
B) BRASILIA 602  
C) BRASILIA 551

¶1. (SBU) Press speculation about the possible resignation of Finance Minister Antonio Palocci resignation is at a fever pitch, with nearly identical story lines stating that Palocci's future as minister is to be decided March 27, reportedly at an planned meeting between Lula and Palocci. The opposition has been attacking relentlessly after the leaking by state-owned bank Caixa Economica Federal (CEF) of handyman Francenildo da Costa's bank statements in an apparent effort to undermine his credibility. Costa alleged in recent testimony before a Congressional Investigative Commission (CPI) that he saw Palocci on multiple occasions at a Brasilia house where several former Palocci aides are supposed to have conducted illicit business (reftels). Costa, however, has provided fairly credible explanations for the unusually large recent deposits shown on his leaked bank statements.

¶2. (SBU) The Federal Police have been forced to open an inquiry into the leak of the bank statements, which are protected by Brazilian privacy laws. The next step in that investigation is today's deposition to the Federal Police by Jorge Mattoso, the head of CEF. Mattoso's testimony has become politically charged because the state-owned bank is overseen by the Finance Ministry and the bank's management is rife with partisans from the ruling Workers Party (PT). Although Mattoso has stated publicly that he had nothing to do with the leak and that he had not received any pressure from Palocci to divulge the handyman's banking statements, any new information suggesting someone in Palocci's entourage or in PT party was behind the leak, as the opposition is alleging, would be seriously damaging.

¶3. (SBU) Palocci's only public appearance since the handyman's testimony was on Friday March 24 at the Sao Paulo AmCham. (Reportedly, he is camping out at the presidency, and not even bothering to go into the ministry.) Participants in the AmCham session have said that Palocci admitted that he had "made mistakes," but stressed that there would be continuity of economic policy regardless of who is finance minister. One of Palocci's advisors told Emboff the morning of March 27 that Lula would be out of town most of the day and that, contrary to the press reports, Palocci did

not have any scheduled meetings with the President.

¶4. (SBU) Comment: While the press looks to be getting a bit ahead of actual events, it is very likely that Lula will make a decision on Palocci's tenure in the job by the end of the week (March 31), which is the deadline for executive branch officials to resign so that they can run for public office in the October elections. Several of Lula's ministers plan to leave by this deadline anyway, which offers Lula a (slightly) face-saving option of having Palocci leave to run for Congress as part of the broader cabinet reshuffle. While Palocci's departure is by no means a foregone conclusion, Lula may well decide that his finance minister has become too big a liability to carry into the election campaign.

¶5. (SBU) The most frequently mentioned possible replacement for Palocci, is PT Senator Aloizio Mercadante. While Mercadante is part of the moderate wing of the PT, he has criticized the degree to which the finance ministry pursued primary surpluses in excess of the formal 4.25% of GDP target. A financial market participant told us March 23 that financial market actors likely would give Mercadante the benefit of the doubt were his appointment accompanied by a strong Lula re-statement of the GoB's commitment to sound policies.

¶6. (SBU) Other potential successors include finance ministry Vice-Minister Murilo Portugal (who reportedly does not want the job), Planning Minister Paulo Bernardo (who has his own, unrelated, ethics challenges), National Development Bank President Guido Mantega (a loyal PT stalwart), and Joao Sayad (the GoB's failed candidate for the presidency of the IDB). According to the press, all this uncertainty, combined with the expected departure of the ministry's Treasury Secretary, Joaquim Levy, could mean that the Brazilian contingent will find itself distracted at the upcoming

BRASILIA 00000604 002 OF 002

April 3-5 Annual IDB meeting, hosted by the GoB in Belo Horizonte.

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